

CITY OF ELDON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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CITY OF ELDON

Officials

<u>Name</u>	<u>Title</u> (Before January 2004)	<u>Term Expires</u>
David Bowen	Mayor	Jan. 2004
Rick Hindsley	Council Member	Jan. 2004
Gerry Potts	Council Member	Jan. 2004
Margie Stansberry	Council Member	Jan. 2004
Glen Dye	Council Member	Jan. 2004
Heidi Kildow	Council Member	Jan. 2004
(After January 2004)		
Roger Gosnell	Mayor	Jan. 2006
Mel Burton	Council Member	Jan. 2006
Linda Durfinger	Council Member	Jan. 2006
Heidi Kildow	Council Member	Jan. 2006
Michael McClure	Council Member	Jan. 2006
Mark Ballard	Council Member	(Resigned)
Robert Moore	Council Member	Jan. 2006
Carrie Teninty	Clerk/Treasurer	Indefinite
Paul Zingg	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eldon, Iowa as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Eldon's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Eldon as of and for the year ended June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated October 1, 2004 on our consideration of the City of Eldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Budgetary comparison information on pages 24 through 26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Eldon's basic financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
October 1, 2004

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Basic Financial Statements

CITY OF ELDON

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS

As of and for the Year Ended June 30, 2004

		Program Receipts		
		Charges	Operating	Capital Grants,
	Disbursements	for Services	Grants, Contributions and Restricted Interest	Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 105,587	\$ -	\$ -	-
Public works	100,178	-	83,267	-
Culture and recreation	33,364	-	13,594	-
Community and economic development	5,100	-	-	-
General government	71,826	10,320	-	-
Debt service	51,709	-	28,853	-
Total governmental activities	367,764	10,320	125,714	-
Business type activities:				
Water	286,997	143,695	-	-
Sewer	158,432	82,539	-	64,900
Garbage	52,911	65,392	-	-
Total business type activities	498,340	291,626	-	64,900
Total	866,104	301,946	125,714	64,900

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental		Business Type	Total	
Activities		Activities		
\$	(105,587)	\$	-	\$ (105,587)
	(16,911)		-	(16,911)
	(19,770)		-	(19,770)
	(5,100)		-	(5,100)
	(61,506)		-	(61,506)
	(22,856)		-	(22,856)
	(231,730)		-	(231,730)
	-	(143,302)		(143,302)
	-	(10,993)		(10,993)
	-	12,481		12,481
	-	(141,814)		(141,814)
	(231,730)	(141,814)		(373,544)

As of and for the Year Ended June 30, 2004

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities		Business Type Activities	Total
\$	104,661	\$ -	\$ 104,661
	1,902	-	1,902
	80,555	-	80,555
	3,345	-	3,345
	5,095	371	5,466
	16,820	7,114	23,934
	-	14,765	14,765
	212,378	22,250	234,628
	(19,352)	(119,564)	(138,916)
	123,142	286,674	409,816
\$	<u>103,790</u>	\$ <u>167,110</u>	\$ <u>270,900</u>
\$	70,181	\$ -	\$ 70,181
	10,302	-	10,302
	176,072	-	176,072
	(152,765)	167,110	14,345
\$	<u>103,790</u>	\$ <u>167,110</u>	\$ <u>270,900</u>

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENT FUNDS

As of and for the Year Ended June 30, 2004

	General	Special Revenue Road Use Tax	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	\$ 68,685	\$ -	\$ 37,878	\$ 106,563
Other City tax	3,145	-	80,555	83,700
Licenses and permits	2,897	-	-	2,897
Use of money and property	33,948	-	13	33,961
Intergovernmental	7,781	83,267	-	91,048
Charges for service	10,320	-	-	10,320
Miscellaneous	19,923	-	-	19,923
Total receipts	<u>146,699</u>	<u>83,267</u>	<u>118,446</u>	<u>348,412</u>
Disbursements:				
Operating:				
Public safety	56,543	-	49,044	105,587
Public works	11,163	73,062	15,953	100,178
Culture and recreation	33,364	-	-	33,364
Community and economic development	5,100	-	-	5,100
General government	66,412	-	5,414	71,826
Debt Service	35,674	-	16,035	51,709
Total disbursements	<u>208,256</u>	<u>73,062</u>	<u>86,446</u>	<u>367,764</u>
Excess (deficiency) of receipts over (under) disbursements	(61,557)	10,205	32,000	(19,352)
Cash balances beginning of year	<u>126,059</u>	<u>59,976</u>	<u>(62,893)</u>	<u>123,142</u>
Cash balances end of year	<u>\$ 64,502</u>	<u>\$ 70,181</u>	<u>\$ (30,893)</u>	<u>\$ 103,790</u>
Cash Basis Fund Balances:				
Reserved:				
Debt service	\$ -	\$ -	\$ 10,302	\$ 10,302
Unreserved:				
General fund	64,502	-	-	64,502
Special revenue funds	-	70,181	96,850	167,031
Capital project funds	-	-	(147,086)	(147,086)
Permanent funds	-	-	9,041	9,041
Total cash basis fund balances	<u>\$ 64,502</u>	<u>\$ 70,181</u>	<u>\$ (30,893)</u>	<u>\$ 103,790</u>

See notes to financial statements.

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for services	\$ 143,695	\$ 82,539	\$ 65,392	\$ 291,626
Operating disbursements:				
Business type activities	153,624	143,421	52,911	349,956
Excess (deficiency) of operating receipts over (under) operating disbursements	(9,929)	(60,882)	12,481	(58,330)
Non-operating receipts (disbursements):				
Intergovernmental	-	64,900	-	64,900
Interest on investments	236	135	-	371
Miscellaneous	4,380	1,656	1,078	7,114
Debt service	(133,373)	(15,011)	-	(148,384)
Total non-operating receipts (disbursements)	(128,757)	51,680	1,078	(75,999)
Excess (deficiency) of receipts over (under) disbursements	(138,686)	(9,202)	13,559	(134,329)
Operating transfers in, net	14,765	-	-	14,765
Net change in cash balances	(123,921)	(9,202)	13,559	(119,564)
Cash balances beginning of year	224,662	76,808	(14,796)	286,674
Cash balances end of year	\$ 100,741	\$ 67,606	\$ (1,237)	\$ 167,110
Cash basis fund balances:				
Reserved for:				
Depreciation	\$ 10,000	\$ -	\$ -	\$ 10,000
Reserve	5,540	9,121	32,000	46,661
Improvements	-	8,628	-	8,628
Unreserved	85,201	49,857	(33,237)	101,821
Total cash basis fund balances	\$ 100,741	\$ 67,606	\$ (1,237)	\$ 167,110

See notes to financial statements.

CITY OF ELDON
STATEMENT OF CHANGES IN CASH BALANCES
FIDUCIARY FUNDS
As of and for Year Ended June 30, 2004

	Private Purpose Expendable Trusts		
	Sales Tax Collected	Water Department	Total
Additions:			
Miscellaneous:			
Amounts collected	\$ 8,918	\$ 3,700	\$ 12,618
Deduction:			
Public works:			
Collections remitted	9,288	5,498	14,786
Net	(370)	(1,798)	(2,168)
Other changes:			
Transfers out:			
Water operating	-	(14,765)	(14,765)
Net change in cash	(370)	(16,563)	(16,933)
Cash balances beginning of year	804	31,032	31,836
Cash balances end of year	\$ 434	\$ 14,469	\$ 14,903

See notes to financial statements.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

The City of Eldon is a political subdivision of the State of Iowa located in Wapello County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Eldon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The city has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the city but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Wapello County Assessor's Conference Board, Wapello County Emergency Management Commission, and Wapello County Joint E-911 Service board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental fund:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue – The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's garbage collection system.

The City also reports fiduciary funds which accounts for the changes in cash balances and includes private purpose expendable trusts.

C. Measurement Focus and Basis of Accounting

The City of Eldon maintains its financial records on the cash basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development, debt service and business type activities functions.

Note 2. Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level or risk assumed by the city at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investment at June 30, 2004 are as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. government securities	\$ <u>10,000</u>	\$ <u>16,072</u>

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 3. Bonds and Notes Payable

Annual debt service requirements to maturity for revenue notes is as follows:

Year Ending June 30,	Revenue Notes	
	Principal	Interest
2005	\$ 13,745	\$ 19,102
2006	14,364	18,484
2007	15,010	17,838
2008	15,686	17,162
2009	16,392	16,456
2010 - 2014	93,711	70,530
2015 - 2019	74,224	48,775
2020 - 2024	37,472	37,583
2025 - 2029	46,697	28,359
2030 - 2034	58,193	16,863
2035 - 2037	39,004	3,449
Total	\$ 424,498	\$ 294,601

On April 26, 2004 the \$126,421 of water revenue notes due on June 15, 2004 through June 15, 2019 were redeemed in advance.

The resolution providing for the issuance of the revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

Note 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.19% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2004 was equal to the required contributions.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 796
Sick leave	1,115
Comp time	<u>383</u>
Total	\$ <u><u>2,294</u></u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

Note 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise: Water	Fiduciary: Water Deposits	\$ <u><u>14,765</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 7. Related Party Transactions

The City had business transactions between the City and City officials totaling \$9,985 during the year ended June 30, 2004.

Note 8. Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 384.12 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 361 members include various governmental entities through the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no redemption in insurance coverage from prior years.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 8. Risk Management (continued)

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$19,117.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$50,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claims or services of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pools inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claims was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of the capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ELDON
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 9. Deficit Fund Balance

The following funds had deficit fund balances at June 30, 2004:

Governmental:

Capital projects:

Fire Station Building	\$ (134,213)
Medical Clinic	(11,144)
Housing Projects	(1,729)

Proprietary:

Enterprise:

Water Sinking	(16,581)
Sewer Sinking	(1,445)
Garbage	(33,237)

The deficits in the Capital Projects funds will be eliminated upon receipt of the state and federal grant funds, the transfer of City matching funds, and the issuance of long-term debt. The deficit in the water sinking fund and sewer sinking fund will be eliminated by sewer rental transfers to this fund. The deficit garbage fund will be eliminated with the collection of future garbage fees.

Note 10. Loan Commitment

The City has a loan commitment from the United States Department of Agriculture – Rural Development for \$250,000 to cover the cost of newly constructed fire station.

Note 11. Accounting Change

The governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial statements. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities.

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Required Supplementary Information

CITY OF ELDON

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 106,563	\$ -	\$ 106,563
Other city tax	83,700	-	83,700
License and permits	2,897	-	2,897
Use of money and property	33,961	371	34,332
Intergovernmental	91,048	64,900	155,948
Charges for services	10,320	291,626	301,946
Miscellaneous	19,923	7,114	27,037
Total receipts	<u>348,412</u>	<u>364,011</u>	<u>712,423</u>
Disbursements:			
Public safety	105,587	-	105,587
Public works	100,178	-	100,178
Culture and recreation	33,364	-	33,364
Community and economic development	5,100	-	5,100
General government	71,826	-	71,826
Debt service	51,709	-	51,709
Business type activities	-	498,340	498,340
Total disbursements	<u>367,764</u>	<u>498,340</u>	<u>866,104</u>
Excess (deficiency) of receipts over (under) disbursements	(19,352)	(134,329)	(153,681)
Other financing sources (uses), net	-	14,765	14,765
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(19,352)	(119,564)	(138,916)
Balances beginning of year	<u>123,142</u>	<u>286,674</u>	<u>409,816</u>
Balanced end of year	<u>\$ 103,790</u>	<u>\$ 167,110</u>	<u>\$ 270,900</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
\$ 99,239	\$ 90,517	\$ 16,046
11,550	86,117	(2,417)
3,705	2,400	497
37,528	42,103	(7,771)
475,270	396,550	(240,602)
310,950	321,850	(19,904)
3,400	2,850	24,187
941,642	942,387	(229,964)
75,950	349,955	244,368
86,250	645,402	545,224
35,980	59,364	26,000
-	-	(5,100)
105,100	114,400	42,574
35,674	35,674	(16,035)
360,495	133,373	(364,967)
699,449	1,338,168	472,064
242,193	(395,781)	242,100
300,000	354,401	(339,636)
542,193	(41,380)	(97,536)
607,404	-	409,816
\$ 1,149,597	\$ (41,380)	\$ 312,280

CITY OF ELDON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$38,719. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development, debt service and business type activities functions.

Other Supplementary Information

CITY OF ELDON

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for Year Ended June 30, 2004

	Special Revenue			
	Employee Benefits	Emergency	Local Option Sales Tax	Debt Service
Receipts:				
Property tax	\$ 35,976	\$ 1,902	\$ -	\$ -
Other City tax	-	-	80,555	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Total receipts	<u>35,976</u>	<u>1,902</u>	<u>80,555</u>	<u>-</u>
Disbursements:				
Operating:				
Public safety	19,961	-	-	-
Public works	15,953	-	-	-
General government	5,414	-	-	-
Debt service	-	-	-	16,035
Total disbursements	<u>41,328</u>	<u>-</u>	<u>-</u>	<u>16,035</u>
Excess (deficit) receipts over (under) disbursements	(5,352)	1,902	80,555	(16,035)
Cash balances beginning of year	<u>19,745</u>	<u>-</u>	<u>-</u>	<u>26,337</u>
Cash balances end of year	<u>\$ 14,393</u>	<u>\$ 1,902</u>	<u>\$ 80,555</u>	<u>\$ 10,302</u>
Cash basis fund balances:				
Reserved:				
Debt service	\$ -	\$ -	\$ -	\$ 10,302
Unreserved:				
Special revenue funds	14,393	1,902	80,555	-
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
	<u>\$ 14,393</u>	<u>\$ 1,902</u>	<u>\$ 80,555</u>	<u>\$ 10,302</u>

See accompanying independent auditor's report.

Capital Projects			Permanent	
Fire Station Building	Medical Clinic	Housing Project	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ -	37,878
-	-	-	-	80,555
-	-	-	13	13
-	-	-	-	0
-	-	-	13	118,446
29,083	-	-	-	49,044
-	-	-	-	15,953
-	-	-	-	5,414
-	-	-	-	16,035
29,083	-	-	-	86,446
(29,083)	-	-	13	32,000
(105,130)	(11,144)	(1,729)	9,028	(62,893)
<u>\$ (134,213)</u>	<u>\$ (11,144)</u>	<u>\$ (1,729)</u>	<u>\$ 9,041</u>	<u>\$ (30,893)</u>
\$ -	\$ -	\$ -	\$ -	10,302
-	-	-	-	96,850
(134,213)	(11,144)	(1,729)	-	(147,086)
-	-	-	9,041	9,041
<u>\$ (134,213)</u>	<u>\$ (11,144)</u>	<u>\$ (1,729)</u>	<u>\$ 9,041</u>	<u>\$ (30,893)</u>

CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2004

Receipts:	
Property tax	\$ <u>68,685</u>
Other City tax:	
Cable franchise fee	<u>3,145</u>
Licenses and permits:	
Cigarette	225
Beer and liquor	1,487
Building	185
Rental registrations	<u>1,000</u>
	<u>2,897</u>
Use of money and property:	
Interest on investments	5,095
Rent	<u>28,853</u>
	<u>33,948</u>
Intergovernmental:	
Bank franchise tax	200
County library allocation	<u>7,581</u>
	<u>7,781</u>
Charges for service:	
Various charges	6,805
Charges for services	<u>3,515</u>
	<u>10,320</u>
Miscellaneous:	
Returned check charges	310
Sale cemetery lots	6,000
Memorials	50
Insurance proceeds	11,077
Refunds and reimbursements	2,141
Merchandise sales	<u>345</u>
	<u>19,923</u>
Total receipts	<u>146,699</u>

CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2004

Disbursements:

Public Safety:

Police:

Personal services	\$ 32,993
Services and commodities	7,421
	<u>40,414</u>

Fire department:

Services and commodities	12,218
Capital outlay	3,911
	<u>16,129</u>
	<u>56,543</u>

Public Works:

Street maintenance:

Personal services	9,718
Services and commodities	1,445
	<u>11,163</u>

Culture and Recreation:

Library:

Personal services	12,881
Services and commodities	9,915
Capital outlay	764
	<u>23,560</u>

Parks and recreation:

Services and commodities	<u>1,000</u>
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Cemetery:

Personal services	6,772
Services and commodities	2,032
	<u>8,804</u>
	<u>33,364</u>

Community and Economic Development:

Payments to other agencies	<u>5,100</u>
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CITY OF ELDON
DETAILED SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2004

Disbursements (continued):

General Government:

Mayor and Council Members:

Personal services	\$ <u>5,473</u>
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Financial administration:

Personal services	3,422
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Services and commodities	<u>6,322</u>
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	<u>9,744</u>
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Legal services	<u>15,904</u>
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Insurance	<u>12,674</u>
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City Hall and general buildings:

Services and commodities	11,576
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Capital outlay	<u>11,041</u>
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	<u>22,617</u>
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	<u>66,412</u>
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Debt Service:

Clinic building:

Principal	27,138
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Interest	<u>8,536</u>
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	<u>35,674</u>
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Total disbursements	<u>208,256</u>
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Excess (deficiency) of receipts

over (under) disbursements	(61,557)
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Balance beginning of year

	<u>126,059</u>
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Balance end of year

	<u>\$ 64,502</u>
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See accompanying independent auditor's report.

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CITY OF ELDON
COMBINING DETAILED SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUNDS
Year Ended June 30, 2004

	<u>Water Operating</u>	<u>Water Depreciation</u>	<u>Water Sinking</u>	<u>Water Reserve</u>
Operating receipts:				
Charges for services:				
Sales of services	\$ 141,606	\$ -	\$ -	-
Other charges for services	2,089	-	-	-
Total operating receipts	<u>143,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating disbursements:				
Business type activities:				
Personal:				
Regular	27,163	-	-	-
Administrative	10,492	-	-	-
Purchased water	57,033	-	-	-
Payments to other agencies	-	-	-	-
Operating supplies	28,159	-	-	-
Other supplies	7,635	-	-	-
Maintenance and repair	16,213	-	-	-
Insurance	2,500	-	-	-
Utilities	2,776	-	-	-
Workers' compensation	678	-	-	-
Training	538	-	-	-
Other services	437	-	-	-
Capital outlay	-	-	-	-
Total operating disbursements	<u>153,624</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(9,929)</u>	<u>-</u>	<u>-</u>	<u>-</u>

<u>Sewer Operating</u>	<u>Sewer Improvement</u>	<u>Sewer Sinking</u>	<u>Sewer Reserve</u>	<u>Garbage</u>	<u>Garbage Reserve</u>	<u>Total</u>
\$ 79,700	\$ -	\$ -	\$ -	\$ 65,372	\$ -	\$ 286,678
2,839	-	-	-	20	-	4,948
82,539	-	-	-	65,392	-	291,626
18,130	-	-	-	21,775	-	67,068
11,834	-	-	-	4,164	-	26,490
-	-	-	-	-	-	57,033
-	-	-	-	-	-	0
25,673	-	-	-	17,432	-	71,264
5,573	-	-	-	-	-	13,208
4,002	-	-	-	6,040	-	26,255
2,100	-	-	-	1,343	-	5,943
831	-	-	-	-	-	3,607
480	-	-	-	1,916	-	3,074
330	-	-	-	-	-	868
976	-	-	-	-	-	1,413
71,388	2,104	-	-	241	-	73,733
141,317	2,104	-	-	52,911	-	349,956
(58,778)	(2,104)	-	-	12,481	-	(58,330)

CITY OF ELDON
COMBINING DETAILED SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUNDS
Year Ended June 30, 2004

	<u>Water Operating</u>	<u>Water Depreciation</u>	<u>Water Sinking</u>	<u>Water Reserve</u>
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	\$ -	\$ -	-
Interest on investments	236	-	-	-
Return check charges	4,380	-	-	-
Debt Service:				
Principal	-	-	(126,421)	-
Interest	-	-	(6,642)	-
Fees	-	-	(310)	-
Total non-operating receipts (disbursements)	<u>4,616</u>	<u>-</u>	<u>(133,373)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(5,313)</u>	<u>-</u>	<u>(133,373)</u>	<u>-</u>
Transfers in (out):				
Water sinking	(84,959)	-	-	-
Water deposit fiduciary	14,765	-	-	-
Water reserve	25,835	-	-	-
Water operating	-	-	84,959	(25,835)
Sewer sinking	-	-	-	-
Sewer improvement	-	-	-	-
Sewer reserve	-	-	-	-
Sewer operating	-	-	-	-
Garbage reserve	-	-	-	-
Garbage operating	-	-	-	-
Net transfers in (out)	<u>(44,359)</u>	<u>-</u>	<u>84,959</u>	<u>(25,835)</u>
Net change in cash balances	(49,672)	-	(48,414)	(25,835)
Cash balances beginning of year	<u>134,873</u>	<u>10,000</u>	<u>31,833</u>	<u>47,956</u>
Cash balances end of year	<u>\$ 85,201</u>	<u>\$ 10,000</u>	<u>\$ (16,581)</u>	<u>\$ 22,121</u>

See accompanying independent auditor's report.

<u>Sewer Operating</u>	<u>Sewer Improvement</u>	<u>Sewer Sinking</u>	<u>Sewer Reserve</u>	<u>Garbage</u>	<u>Garbage Reserve</u>	<u>Total</u>
\$ 64,900	\$ -	\$ -	\$ -	\$ -	\$ -	64,900
135	-	-	-	-	-	371
1,656	-	-	-	1,078	-	7,114
-	-	(3,784)	-	-	-	(130,205)
-	-	(11,227)	-	-	-	(17,869)
-	-	-	-	-	-	(310)
66,691	-	(15,011)	-	1,078	-	(75,999)
7,913	(2,104)	(15,011)	-	13,559	-	(134,329)
-	-	-	-	-	-	(84,959)
-	-	-	-	-	-	14,765
-	-	-	-	-	-	25,835
-	-	-	-	-	-	59,124
(12,192)	-	-	-	-	-	(12,192)
2,936	-	-	-	-	-	2,936
(1,512)	-	-	-	-	-	(1,512)
-	(2,936)	12,192	1,512	-	-	10,768
-	-	-	-	(6,000)	-	(6,000)
-	-	-	-	-	6,000	6,000
(10,768)	(2,936)	12,192	1,512	(6,000)	6,000	14,765
(2,855)	(5,040)	(2,819)	1,512	7,559	6,000	(119,564)
52,712	13,668	1,374	9,054	(40,796)	26,000	286,674
\$ 49,857	\$ 8,628	\$ (1,445)	\$ 10,566	\$ (33,237)	\$ 32,000	\$ 167,110

CITY OF ELDON
SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance June 30, 2003</u>
General obligation bonds:				
Essential corporate purpose	December 1, 1986	4.59 - 6.90%	\$ 780,000	\$ <u>15,000</u>
Notes payables:				
FHA water	June 20, 1979	5.00%	207,000	\$ 126,421
Sewer project	September 2, 1997	4.50%	270,900	258,711
Medical Clinic	October 18, 1999	4.50%	150,000	127,185
Medical Clinic	October 18, 1999	4.50%	82,000	<u>69,524</u>
				\$ <u>581,841</u>

See accompanying independent auditor's report.

Issued During Year	Redeemed During Year	Balance June 30, 2004	Interest Paid
<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ <u> </u> -	\$ <u> 15,000</u>	\$ <u> </u> -	\$ <u> 1,035</u>
\$ -	\$ 126,421	\$ -	\$ 6,642
-	3,784	254,927	11,227
-	17,545	109,640	5,519
-	9,593	59,931	3,017
<u> </u>	<u> </u>	<u> </u>	<u> </u>
\$ <u> </u> -	\$ <u> 157,343</u>	\$ <u> 424,498</u>	\$ <u> 26,405</u>

CITY OF ELDON
BOND AND NOTE MATURITIES

June 30, 2004

Year Ending June 30,	Revenue Notes			Revenue Notes			Revenue Notes			Total				
	Rural Development Sewer Loan			Rural Development Loan			Rural Development Loan							
	Issued September 2, 1997			Issued October 18, 1999			Issued October 18, 1999							
	Interest		Amount	Interest		Amount	Interest		Amount					
	Rates			Rates			Rates							
2005	4.50	%	\$	3,539	4.50	%	\$	6,598	4.50	%	\$	3,608	\$	13,745
2006	4.50			3,699	4.50			6,895	4.50			3,770		14,364
2007	4.50			3,865	4.50			7,205	4.50			3,940		15,010
2008	4.50			4,039	4.50			7,530	4.50			4,117		15,686
2009	4.50			4,221	4.50			7,868	4.50			4,303		16,392
2010	4.50			4,411	4.50			8,223	4.50			4,496		17,130
2011	4.50			4,609	4.50			8,593	4.50			4,699		17,901
2012	4.50			4,816	4.50			8,979	4.50			4,910		18,705
2013	4.50			5,033	4.50			9,383	4.50			5,131		19,547
2014	4.50			5,260	4.50			9,806	4.50			5,362		20,428
2015	4.50			5,496	4.50			10,247	4.50			5,603		21,346
2016	4.50			5,744	4.50			10,708	4.50			5,855		22,307
2017	4.50			6,002	4.50			7,605	4.50			4,137		17,744
2018	4.50			6,272	-			-	-			-		6,272
2019	4.50			6,555	-			-	-			-		6,555
2020	4.50			6,850	-			-	-			-		6,850
2021	4.50			7,158	-			-	-			-		7,158
2022	4.50			7,480	-			-	-			-		7,480
2023	4.50			7,816	-			-	-			-		7,816
2024	4.50			8,168	-			-	-			-		8,168
2025	4.50			8,536	-			-	-			-		8,536
2026	4.50			8,920	-			-	-			-		8,920
2027	4.50			9,321	-			-	-			-		9,321
2028	4.50			9,741	-			-	-			-		9,741
2029	4.50			10,179	-			-	-			-		10,179
2030	4.50			10,637	-			-	-			-		10,637
2031	4.50			11,116	-			-	-			-		11,116
2032	4.50			11,616	-			-	-			-		11,616
2033	4.50			12,139	-			-	-			-		12,139
2034	4.50			12,685	-			-	-			-		12,685
2035	4.50			13,256	-			-	-			-		13,256
2036	4.50			13,852	-			-	-			-		13,852
2037	4.50			11,896	-			-	-			-		11,896
Total			\$	254,927			\$	109,640			\$	59,931	\$	424,498

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Eldon, Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Eldon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Eldon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Eldon's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe items I-A-04 and I-B-04 are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Eldon and other parties to whom the City of Eldon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Eldon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
October 1, 2004

CITY OF ELDON
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent and individual employee from handling duties which are incompatible. We noted that the bank deposits, the posting of receipts and disbursements, and check writing are done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having the mayor or a council member periodically reconcile the checking accounting and trace deposits to the receipt book.

Response – The internal control will be reviewed on a regular basis.

Conclusion – Response accepted.

- I-B-04 Approval of Claims or Disbursements – Starting with the February 10, 2004 Council minutes, there was no indication that claims were either audited or approved by the Council. Without the documentation that the Council has reviewed and approved the claims, the internal control over disbursements is further weakened.

Recommendation – Council minutes should document that claims were audited and approved. Also, the claims should either be listed in the minutes or reference made to an attached list of claims that has been signed and dated by at least two Council members.

Response – The situation was corrected after it was brought to our attention.

Conclusion – Response accepted.

- I-C-04 Library Activity – Some library operating receipts and disbursements are being recorded in a separate Library Memorial Fund which is not part of the City financial records. Such operating activities should be included as part of the General Fund. Thus the operating disbursements are not being approved by the City Council which has responsibility for all City funds. Also such library operating disbursements are not subject to the City's budgetary controls.

Recommendation – All operating receipts and disbursements should be recorded as part of the City's general fund financial records then being subject to normal City controls. The Library Memorial Fund and any memorial activity may be maintained as a separate fund, however, the City should receive a report of activity and balances to be included as part of the City financial reporting.

Response – We will implement the above recommendation.

Conclusion – Response accepted.

CITY OF ELDON
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

- I-D-04 Cancellation of Invoices – Of the disbursements tested, we found that eight of the supporting invoices had not been cancelled after being paid.

Recommendation – All invoices should be cancelled upon payment by being marked “Paid” along with the date and initials of the individual performing the procedure to prevent the invoices from being paid twice or supporting a duplicate payment.

Response – We will make sure that all invoices are cancelled upon payment.

Conclusion – Response accepted.

- I-E-04 Support for Disbursements – We found that four of the disbursements tested were not supported by an invoice or document.

Recommendation – All disbursements should be supported by an invoice or some authorization that the goods or services have been received. Claims should have an attached supporting document before the Council approved the claim for payment.

Response – We will see that all claims have a supporting invoice or document.

Conclusion – Response accepted.

- I-F-04 Disbursements Charged to Improper Accounts – We believe that two of the disbursements tested were charged to the incorrect account. One in particular for payment on the Water Fund Revenue note was charged to a transfer account rather than a principal payment account.

Recommendation – In order to provide proper monthly financial reporting to the Council, receipts and disbursements should be included in the account which is deemed the most appropriate.

Response – We will watch more closely in the future the accounts to which transactions are recorded.

Conclusion – Response accepted.

- I-G-04 Approval of Timesheets – We noted that timesheets in support of payroll amounts were not being approved.

Recommendation – For those individuals for which timesheets are required, the timesheets should be approved by the department head or the Mayor before being turned in for computation of payroll.

Response – We will implement this procedure.

Conclusion – Response accepted.

CITY OF ELDON
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-04 Official Depositories – A resolution naming official depositories and the maximum deposit amounts during the year ended June 30, 2004 could not be found. Therefore the amounts on deposit were not covered by the State Sinking Fund to the extent the deposits exceeded federal depository insurance amounts.

Recommendation – The Council should adopt a depository resolution to ensure against the loss of public funds.

Response – This was done when we were made aware of the situation.

Conclusion – Response accepted.

- II-B-04 Certified Budget – Disbursements for the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development, debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under annual or continuing appropriation.

The budgets were exceeded due in part to the recording of the payment to the “American Gothic Center” as a general government function rather than as the appropriate community and economic development function. Also when the fiscal 2004 budget was amended the original budgeted amounts used were from the fiscal 2003 budget.

Also no proof of publication of notice of public hearing of the original fiscal 2004 budget could be found as required by Chapter 384.16(3)7 of the Code of Iowa.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Procedures should be in place that notice of public hearing for the adopting of the budget is actually published.

Response – The budget will be amended appropriately in the future, if applicable, and budget public hearings will be published.

Conclusion – Response accepted.

- II-C-04 Questionable Disbursements – No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF ELDON
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Michael McClure, Council Member, Owner of McClure Back hoeing	Backhoe work Maintenance	\$7,250 <u>290</u> 7,540
Jerry Potts, Council Member, Owner of Jerry's Progas	Supplies Maintenance	1,687 <u>554</u> 2,241
Rick Hindsley, Council Member, Owner of Thumbs Up	Supplies	<u>204</u>

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Members Jerry Potts (while council member) and Rick Hindsley do not appear to represent conflicts of interest since the total transactions with the individuals were less than \$2,500 during the fiscal year. The transactions with the Council Member Michael McClure does appear to represent a conflict of interest since it was not entered into through competitive bidding.

Recommendation – The City should put the applicable contracts up for competitive bid to be in compliance with the Code of Iowa.

Response – We will consider our alternatives. The contract for backhoe work was for emergency repair of a public improvement.

Conclusion – Response accepted.

- II-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except for the matter discussed in comment I-B-04.

Although minutes of Council proceedings were published, prior to February 10, 2004 they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the published minutes did not include a summary of receipts or total disbursements by fund. Also a list of claims, including the purpose of the claims was not always published.

The September 9, 2003 Council minutes approved the Council minutes of an August 12, 2003 Council meeting, however no Council minutes or notes of an August 12, 2003 Council meeting could be found.

CITY OF ELDON
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting (continued):

II-G-04 Council Minutes (continued)

The Council held closed session meetings on May 25, 2004 and June 29, 2004. The purpose of the closed meeting was indicated as required by Chapter 21.5 of the Code of Iowa, however, there was no indication in the minutes that the Council approved going into the closed session or closing the closed session. Also there was no indication of the action taken in the closed session or the fact that no action was taken.

Recommendation – The City should publish minutes and include the required information, assure that a record is made of all Council meetings and fully comply with Chapter 21 of the Code of Iowa.

Response – We will publish minutes as required and ensure that all Council meetings are recorded and comply with all the Code requirements for closed sessions.

Conclusion – Response accepted.

II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-04 Revenue Notes – The City has complied with the revenue note resolution.

II-J-04 Financial Condition – The following funds had deficit fund balances at June 30, 2004:

Capital Projects:	
Fire Station Building	\$134,213
Medical Clinic	11,144
Housing Projects	1,729
Enterprise:	
Water Sinking	16,581
Sewer Sinking	1,445
Garbage Operating	33,237

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position. Transfers should be made from the Water Reserve and Sewer Reserve to the Water Sinking and Sewer Sinking, respectively, to eliminate the Sinking deficits. Transfers should be made from appropriate funds to the Capital Projects, Medical Clinic and Housing Projects funds since these projects were completed in prior years.

Response – We will consider the recommended transfers. The Capital Projects, Fire Station Building deficit resulted from construction costs incurred prior to the receipt of proceeds from the anticipated issuance of long-term debt. The deficit garbage operating fund will be eliminated with the collection of future garbage fees and the garbage fund has a reserve fund balance of \$32,000.

Conclusion – Response accepted.

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